



ANNUAL OUTLOOK--1982

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

August, 1981

SEP 11 1981

The economy

A corner has been turned in national economic policy, and the country is moving in a new direction. Four policy changes are now being implemented. First, the rate of increase in expenditures by the federal government is being reduced. Cuts in planned spending increases for numerous programs appear likely to reduce the federal budget share of the gross national product (GNP). Second, tax increases resulting from inflation and bracket creep will be partly offset by a reduction in tax rates. Third, a decrease in regulation of business is taking place. Fourth, the Federal Reserve Board has begun to focus on controlling the rate of growth in monetary aggregates and is permitting interest rates to be set by the markets. This four-point package is designed to slow the rate of inflation, decrease and eventually eliminate budget deficits, and increase the rate of economic growth.

There is, of course, controversy about the effects of these policy changes. The proponents expect that reductions in social programs will restore incentives to work, that reductions in tax rates and government regulation will stimulate investment in research and development and in the modernization and expansion of plants, and that control of monetary aggregates will reduce the rate of inflation. The opponents think that expansion of government programs is essential to the welfare of the disadvantaged; that regulation of industry should be expanded to protect the health and safety of workers, to preserve the environment, and to protect consumers; and that tight money and high interest rates will result in stagnation of economic output and increased unemployment.

For two major reasons it is extremely difficult to predict what effect these changes in policy will have. The first reason is uncertainty about the degree and persistence of the changes. Balanced budgets and tax cuts, have been proposed before but have not been implemented. The course of governmental activity has always been upward. The Federal Reserve Board has talked about monetary restraint but has not practiced it. For the past 20 years, the underlying economic policy has been to continually pour money into the system to stimulate economic activity and from this to expand social programs.

By some standards this policy has worked well. The average rate of increase in GNP, measured in constant valued dollars, has been 3.6 percent per year. But by other standards, this policy has not worked well. During the same 20 years, the general price level (as measured

by the implicit GNP deflator) has increased by an average of 4.9 percent per year. Significantly, monetary aggregates have been increased by an average of 8.7 percent per year. The average monetary increase minus the average increase in total output of goods and services is almost equal to the average increase in the general price level. It follows that if the growth in monetary aggregates is held at the rate of growth in the total economy the price level will remain constant. Nothing so drastic is contemplated. Monetary targets are currently in the 6 to 10 percent range. It is anticipated that the rate of real growth in the GNP will be slow during the next year and that there will be a gradual reduction in the rate of inflation.

If the policies of gradualism work without inducing a sharp recession and increasing unemployment, we can expect them to be kept in place. The political climate appears to be such that a fairly high price will be paid to reduce the rate of inflation.

The second reason it is difficult to anticipate the effect of the changes in our economic policy is uncertainty about the economy's reaction to monetary discipline. The price level is made up of many items. If the average level of all prices is stable, there are necessarily as many individual items falling as are rising. Will the overpriced items be allowed to decrease? The prices of many things are cost determined, and labor makes up much of the cost. A core of inflation is built into expectations. These inflationary expectations are deeply entrenched. The general price level rose 5.8 percent in 1977, 7.3 percent in 1978, 8.5 percent in 1979, and 9.0 percent in 1980. Without doubt, many things are priced above their equilibrium values. Will they be marked down to stimulate use and maintain output, or will their prices be held up with the general price level and the economy be tipped into a serious recession? This is the risk of implementing the new policies.

If a general perception that prices are a two-way street develops, the new policies will have a good chance of success. The most popular measure of the rate of inflation is the Consumer Price Index (CPI), the so-called "cost of living." There is good reason to expect that its rate of increase will decrease sharply during the year ahead. It has increased faster than the general price level. While the general price level increased 8.5 percent in 1979, the CPI went up 11.7 percent. And while the general price level increased 9.0 percent in 1980, the CPI went up 13.5 percent. In the long run the two must be equal.

We think that the most likely course during the year ahead is a gradual increase in GNP at a moderate rate

of 2.5 to 3 percent and a gradual, but moderate, decrease in the rate of inflation to 7 percent in the implicit GNP deflator.

The inflation rate may be lower than 7 percent. If the economy rebounds sharply from the 1980 recession, so that the GNP increases 3 percent, an increase in the money supply of 3 percent will be needed to hold prices constant, that is, to maintain zero inflation. If the Federal Reserve Board holds to its 6 to 10 percent range, that will allow a price increase of only 5 percent. Although it is contrary to the conventional wisdom, we should recognize the possibility that the inflation rate could be 5 percent or less.

Interest rates are high and vulnerable. During the 1960s the rate on 6-months commercial paper minus the increase in the general price level averaged about 2.5 percent. This net rate of interest was actually negative from 1975 through 1978. It rose to an average of 3.3 percent in 1980 and was nearly 8 percent in mid-1981. If the inflation rate decreases to 7 percent, the 6-months commercial paper rate will probably go below 10 percent.

Disposable personal income is the most important economic factor affecting demand for agricultural products. Disposable income, measured in constant valued dollars, increased 1.8 percent in 1980. We should expect an increase of 2.0 percent for the second half of 1981 from the second half of 1980 and 2.5 percent for the first half of 1982 from the first half of 1981. Demand for food has been hurt during the past year by increases in energy costs, high interest rates, and by general instability. Adjustments to these conditions have been made, and we expect an increase in consumer demand for food that will be greater than the increase in real disposable income. — *T. A. Hieronymus*

Farm input costs

The rate of increase in the prices of major farm inputs during the year ending June 15, 1981, was more modest than anticipated at this time last year. Overall, the prices of agricultural production items increased by about 10 percent, although the changes in price varied considerably by type of input.

The 21 percent rise in the price of feed was the most dramatic increase. The higher prices reflected the drought-reduced feed grain and soybean crops of 1980. Prices of feeder livestock actually declined, and real estate taxes increased only 5 percent.

The prices of energy-related inputs increased at only a modest rate compared to the increases of the two previous years. Fertilizer prices increased 7 percent, chemicals 9 percent, and fuel prices 11 percent. The moderation in price increases reflects the cutback in petroleum use and the buildup of inventories.

On the average, the price of agricultural inputs increased at about the same rate as the general price level. The CPI rose by 9.8 percent. The GNP deflator, which is a broader measure of prices than the CPI, increased by about 10 percent. Excluding the prices of inputs

Changes in Prices From June 15, 1980, to June 15, 1981

Item	Percent change
Prices paid	
Feed	21
Feeder livestock	-2
Fertilizer	7
Agricultural chemicals	9
Fuel and energy	11
Tractors and S.P. machinery	13
Farm services and cash rent	10
Interest per acre on R.E. loans	9
R.E. taxes per acre	5
Wage rates	7
Production items, interest, R.E. taxes, and wages	10
Consumer price index	9.8
GNP deflator	10
Prices received	
Crops	17
Feed grains	26
Livestock and products	7
All farm products	11

that are internal to the agricultural sector (feed and feeder livestock), input prices increased less than the general price level.

As usual, a number of uncertainties exist concerning changes in input prices for the year ahead. The three most important factors are the policy of the Federal Reserve Board concerning the growth in the money supply, the size of the 1981 feed grain crops, and the policies of petroleum exporting countries.

Interest rates will likely remain high in the short term if the Federal Reserve Board continues to follow a tight money policy. However, in the long run the tight money policy in combination with reduced government spending would be expected to lower the rate of inflation and, subsequently, interest rates.

Feed grain supplies were drastically reduced by the 1980 drought. Prospects for the 1981 crop are such that major increases in feed costs are not expected for the year ahead. Assuming that the trend toward reduced petroleum consumption continues, energy prices are expected to stabilize.

The outlook for changes in the prices of agricultural inputs is more optimistic than in recent years. There is a good chance that the average price of energy related inputs a year from now will be unchanged from current levels. Prices of machinery and service inputs are not likely to exceed the rate of price increases in the general economy. The index of prices paid should show only a marginal increase. — *Darrel Good*

Corn

The short crop and high prices in 1980 led to an increase in feed grain acreage in 1981. In June, the USDA estimated the planted acreage of corn, sorghum, oats, and barley at 123.8 million, up 2.2 million acres from 1980. Expanded acreage of oats accounted for most of the increase. Compared with the drought-reduced crop of last year, a higher percentage of the feed

grain crop is expected to be harvested as grain. Harvested acreage is projected at 106.5 million, up 4.8 million from 1980. Corn will account for about 70 percent of the total.

The USDA's August crop report placed total feed grain production at 236.2 million tons, up from 198.2 million tons in 1980. Because of smaller carryover supplies, however, the 1981-82 feed grain supply is projected to be up only 6 percent from last year.

The corn crop is estimated at 7.7 billion bushels, up from the drought-reduced harvest of 6.6 billion bushels in 1980. Total corn supplies, including carryover, will be 8.6 billion bushels, an increase of 380 million bushels from last year.

DOMESTIC USE

The use of corn for seed, food, and industrial purposes continues to increase. For the 1980-81 crop year, the USDA projects use for these purposes to reach 750 million bushels. The pace through the first three quarters pointed to use of only 715 million bushels. If the trend continues, 750 million bushels will be used in 1981-82.

After expanding rapidly in 1979-80, corn feeding declined sharply in 1980-81. Our projection for the year ending September 30, 1981, is 4.24 billion bushels. The USDA's estimate is 4.15 billion bushels. During 1981-82, corn feeding will be influenced by the level of feeding of other grains, changes in livestock numbers, and the level of profitability in livestock feeding.

The record level of wheat production and the increase in production of oats, barley, and sorghum will result in increased feeding of these grains. However, improved livestock feeding margins and the abundant supply of feed grains point to an increase in total feed consumption. Early projections place corn feeding during the year ahead at 4.35 billion bushels.

EXPORTS

Corn exports for the year ending September 30, 1981, are expected to be near record levels. Although Russia entered the United States grain market for only small amounts after the lifting of the embargo, expanded shipments to other destinations lifted exports near the 1979-80 level. Most of Russian needs were met from other sources, primarily from Argentina.

During 1981-82, production of grain outside the United States is expected to increase by only .5 percent. The wheat crop outside the United States will be 2 percent larger, and the coarse grain crop will be unchanged. The increases in coarse grain production are projected primarily for eastern Europe and Brazil, which are net importers of grain. Reductions are projected for the exporting countries Argentina and South Africa. Major increases in wheat production are projected for the exporting countries Canada and Australia.

Early production estimates suggest that United States corn exports during 1981-82 are likely to be increased from the 1980-81 level to about 2.6 billion bushels.

Corn Balance Sheet — Years Beginning October 1

	Million bushels				
	1977-78	1978-79	1979-80	1980-81 ^a	1981-82 ^b
Carryin	886	1,111	1,304	1,617	910
Production	6,507	7,269	7,940	6,648	7,735
Supply	7,393	8,380	9,244	8,265	8,645
Seed, food, ind. ...	590	620	675	715	750
Export	1,948	2,133	2,433	2,475	2,600
Feed	3,744	4,323	4,519	4,240	4,350
Disappearance	6,282	7,076	7,627	7,430	7,700
Carryout	1,111	1,304	1,617	835	945
U.S. average price..	\$2.02	\$2.25	\$2.52	\$3.17 ^c	...

^a Estimate. ^b Projection. ^c October through June.

PRICES

If preliminary production and disappearance estimates prove accurate, corn stocks will increase to 945 million bushels by September 30, 1982. Supplies would be ample, representing six to seven weeks' use. If supplies remain ample, prices will go low enough relative to livestock prices to encourage a high rate of feeding. A season's average price of \$2.90 per bushel is suggested by projected livestock prices.

CHECKPOINTS

Obviously, the corn market fundamentals will change as the year passes. Subsequent production estimates may significantly change the supply situation, both in the United States and in other major producing areas. These reports should be anticipated and reacted to. In addition, weekly export inspections should be monitored closely. The October and January grain stocks reports will be important checkpoints for evaluating feed disappearance. — *Darrel Good*

Wheat

High prices, ideal planting conditions, and relatively low cash requirements for producing wheat led to a 14 percent increase in winter wheat seedings in the fall of 1980. Ample spring moisture produced good growing conditions in most areas. As a result, the 1981 winter wheat crop is estimated at a record 2.1 billion bushels, up 11 percent from 1980. The soft red crop is expected to be exceptionally large at 689 million bushels, up 61 percent from last year. Because of frost and storm damage and a rain-delayed harvest, the hard red winter wheat crop is expected to total only 1.1 billion bushels, 7 percent less than the 1980 crop.

Because of the early planting and good moisture conditions in the spring of 1981, the spring wheat crop is also potentially large. The USDA's August crop production report estimated the 1981 spring wheat crop at 682.5 million bushels, 43 percent larger than the drought-reduced crop of 1980.

Production of all wheat in 1981 is forecast at a record 2.75 billion bushels. With beginning stocks of 991 mil-

Wheat Balance Sheet — Years Beginning June 1

	Million bushels				
	1977-78	1978-79	1979-80	1980-81	1981-82 ^a
Carryin	1,113	1,178	924	902	991
Production	2,046	1,776	2,134	2,370	2,747
Supply ^b	3,161	2,955	3,060	3,274	3,738
Food	587	592	596	613	625
Seed	80	87	101	112	107
Feed	192	158	86	48	200
Export	1,124	1,194	1,375	1,510	1,650
Disappearance	1,983	2,031	2,158	2,383	2,582
Carryout	1,178	924	902	991	1,156
U.S. overage price..	\$2.33	\$2.97	\$3.78	\$4.00	...

^a Estimate. ^b Includes imports.

lion bushels, 1981-82 supplies total a record 3.7 billion bushels, a 14 percent increase from a year ago.

Substantial increases in wheat production are also forecast for Canada and Australia, two of the United States' major export competitors. The 1981-82 world wheat crop is pegged at 455.3 million metric tons, a 4 percent increase from the previous year.

DOMESTIC USE

A declining proportion of the United States wheat crop has been consumed domestically. During the past two crop years, only about 37 percent of the total disappearance was accounted for by the domestic markets. Use of wheat for food continues to show a very modest rate of growth. Seed and feed uses have fluctuated considerably over the past four years.

Wheat feeding should expand considerably during the current marketing year. The magnitude of the increase is still unclear. There are limits to the degree of substitution of wheat for feed grains. Those limits are least constraining for cattle and most constraining for hogs. Although the wheat crop is larger than a year ago in Texas, it is smaller in other cattle feeding states. Wheat feeding may turn out to be as much as 200 million bushels.

EXPORTS

Wheat exports have been increasing in absolute terms and as a percentage of total use. This trend is expected to continue. In its August estimates, the USDA projected 1981-82 exports at 1.73 billion bushels. This figure seems high in light of the large wheat crop outside the United States, even though wheat will be fed in place of some feed grains around the world. A more reasonable export estimate might be 1.65 billion bushels.

PRICES

If the production and disappearance estimates presented here prove accurate, carry-over supplies of wheat will increase during the 1981-82 crop year. Expectations of ample supplies will keep prices under pressure. Wheat will have to be priced as a feed grain. Historically this has meant a premium of about 20 percent over corn

prices. Assuming an average corn price of \$2.90 per bushel, this premium points to \$3.50 wheat during 1981-82. The government loan and reserve program may support prices at a somewhat higher level. — *Darrel Good*

Soybeans

Soybean price performance has been disappointing during the past year. The small crop of a year ago sparked a sharp increase after harvest. The high prices, along with a strengthening dollar, curtailed export demand for U.S. soybeans and soybean products. The domestic demand for soybean meal was weakened by low livestock prices. Finally, a large South American crop was harvested in the spring of 1981. These factors contributed to a substantial decline in prices, which remained low through the summer of 1981. Ending inventories of soybeans will total more than 370 million bushels, slightly larger than last year's record.

Because prices declined in relation to the prices of competing crops, soybean acreage declined in 1981. The USDA estimates planted acreage at 69.7 million, down 400,000 acres from 1980. Planted acreage of other oilseeds (flaxseed, peanuts, sunflower, and cotton) declined by 300,000 acres.

In its August crop production report, the USDA forecast the 1981 soybean crop at 2.02 billion bushels. With carryover supplies of 374 million bushels, total supplies will be 2.4 billion bushels, 10 percent larger than a year ago, but 2 percent less than the record supplies of 1979. Assuming that supplies in 1981 are adequate in relation to the current rate of use, price will depend on the strength of demand for soybean oil and soybean meal.

SOYBEAN OIL

Stocks of soybean oil accumulated very rapidly during 1980-81, reaching record levels monthly from November through May. Soybean oil prices declined to a monthly average of 21.3 cents in June. The price in constant valued dollars from April through June was the lowest quarterly average since the January to March quarter of 1972.

Soybean oil stocks will remain high for the next several months. However, preliminary estimates suggest that the oilseed crop outside the United States will decline in 1981-82. A smaller Brazilian soybean crop in the spring of 1982 can also be expected. In 1982 valued dollars, the average price is about 30 cents. We expect a modest increase to about 27 cents.

SOYBEAN MEAL

During the first quarter of the 1980-81 marketing year, soybean meal disappearance was very large, running only 3.6 percent behind the record pace of 1979-80. Domestic use was only 1.7 percent off the pace of the previous year. High feed prices and disappointing livestock prices have resulted in a sharp cutback in domestic

Soybean Balance Sheet — Years Beginning September 1

	Million bushels				
	1977-78	1978-79	1979-80	1980-81 ^a	1981-82 ^b
Carryin	103	161	174	359	374
Production	1,762	1,870	2,268	1,817	2,017
Supply	1,865	2,031	2,442	2,176	2,391
Crush	927	1,018	1,123	1,024	1,130
Export	700	753	875	688	825
Seed and residual..	77	86	85	90	90
Disappearance	1,704	1,857	2,083	1,802	2,045
Corryout	161	174	359	374	346
U.S. average price..	\$5.88	\$6.66	\$6.28	\$7.62 ^c	...

^a Estimate. ^b Projection. ^c September through June.

use since the first of the year. Soybean meal exports during 1980-81 have consistently been about 9 percent under the rate for 1979-80. The increasing value of the dollar and the large South American soybean crop contributed to the slow export pace.

Soybean meal prices declined as demand prospects deteriorated. For the period October, 1980, through June, 1981, meal prices at Decatur, Illinois, averaged 1.85 times the farm price of corn in central Illinois. In June the price ratio dropped to 1.75 times the price of corn. The long-term average ratio is 2:1.

Preliminary estimates suggest a tightening soybean supply situation in 1981-82. The entry of Russia into the world soybean market is encouraging. Soybean meal prices may return to a more normal relationship to corn prices. Assuming that the ratio between soybean meal and corn prices is 2 to 1, the meal price would be \$207 per ton if the corn price is \$2.90 per bushel.

PRICES

Supply-demand fundamentals will change as the year passes. The size of the U.S. crop is uncertain. The South American crop has not yet been planted. Subsequent crop production reports will be important. Weekly export and crush rates should be watched closely as indicators of product demand. The profitability of live-stock feeding will also indicate the level of soybean meal feeding. Soybean meal priced at \$207 per ton and soybean oil at 27 cents per pound point to soybean prices of \$7.30 per bushel. — *Darrel Good*

Hogs

Hog producers sustained large losses from June, 1979, through May, 1981, a loss period of record length. During the two-year period, losses averaged \$6.80 per hundred weight compared to average profits of \$3.38 from 1970 through mid-1981. Producers have finally responded with a substantial cut in farrowings. If intentions to farrow during the second half of 1981 (as expressed on June 1) materialize, the 1981 total will be down 9.5 percent from 1980 and about equal to the 1977 and 1978 levels. Prospective slaughter through

mid-1982 (see accompanying table) is down from the past two years but is high in relation to most of the 1970s. We expect hog prices to recover from the low level of the past two years but remain below the preceding seven years in dollars of constant value.

This broad view of the year ahead indicates that the hog producers have returned the industry to dead center. Changes in feed costs or major shifts in consumer demand can unbalance the equilibrium and be followed by price and production adjustments. The swine industry has long been characterized by cyclical patterns that alternately put production too high and low. It will be unusual if the industry stays in equilibrium long. However, concentration into fewer large units and confinement production may contribute to stability.

Sow farrowing in the 14 principal hog producing states during March-May, 1981, was down 8.4 percent. However, the number of pigs saved per litter was above average, and there is a trend toward saving fewer gilts from the spring pig crop. These two trends may result in a fall hog slaughter that is 97 percent of last fall's. Hog prices in the fall of 1981 may average less than during late 1980.

Intention to farrow during June-August was down 7.5 percent on June 1. If usual farrowing-to-slaughter relationships prevail, slaughter during December-February will be 19.3 million head, down sharply from the September-November period and from year-ago levels. This winter there may be a major rise in hog prices.

First intentions to farrow during September-November indicate a decrease in slaughter next March-May of 11 percent. Prices should decrease from their winter high but may average \$56 for barrows and gilts at principal markets.

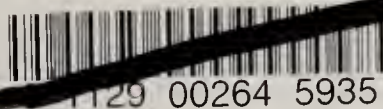
These specific forecasts are only as good as the information in them and rest primarily on the producer survey made about June 1, 1981. They will change with the September 1 survey, the results of which will be released September 21.

Although the hog industry appears to have stabilized, it does not follow that prices will stabilize. The \$54.67 average price shown in the accompanying table represents a range from about \$40 to about \$60. When to price hogs will continue to be a major problem during the year ahead. — *T. A. Hieronymus*

Hog Slaughter, Prices, and Profits

June-May	Slaughter, 1,000 head	Price, \$/cwt.		Profit/loss, \$/cwt.
		1972 \$	Current \$	
1972-73	81,450	31.07	31.57	+ 5.62
1973-74	78,056	36.94	39.86	+ 3.57
1974-75	78,049	32.17	38.30	+ 0.17
1975-76	66,355	40.77	52.08	+12.80
1976-77	77,553	29.87	39.85	+ 0.69
1977-78	77,149	31.36	44.76	+ 9.65
1978-79	79,458	32.06	49.07	+10.19
1979-80	95,896	21.59	36.21	- 7.39
1980-81	93,706	23.68	43.18	- 6.22
1981-82	83,841 ^a	27.61 ^a	54.67 ^a	+ 6.87 ^b

^a Forecast. ^b Based on \$2.90/bushel corn and \$207/ton soybean meal.



Beef cattle

The price of choice steers at Omaha averaged \$64.35 during the first half of 1981, about \$10 below general expectations. Expectations of strong cattle prices had been bid into feeder cattle prices. This and high feed and interest costs resulted in major losses to cattle feeders. Supplies of beef will probably increase during the second half of 1981, and this increase will continue to put pressure on cattle prices. Slaughter of cattle during 1982 may about equal that of 1981. But beef production may be down slightly because of a decrease in slaughter weights. The decrease in slaughter weights will occur only if feed costs and interest remain high. Stable beef supplies, coupled with less competition from pork and poultry and rising real consumer incomes, should result in rising cattle prices during 1982.

Cattle prices during the first half of 1981 were below expectations for a combination of reasons. Beef production was up 4.2 percent from the year before and 2.7 percent above expectations in late 1980 primarily because of heavy slaughter weights. Broiler production was up 3.4 percent and turkey production was up 5.7 percent. Pork production was down 5.1 percent but substantially larger than expected. Total meat supplies increased at a time when a decrease was expected. There was only a small increase in consumer incomes, inflation taken into account. Consumers continued to be plagued by high interest rates and rising energy costs, which took money away from meat purchases. The proportion of meals eaten away from home decreased. This trend had a greater effect on beef prices than on the prices of other meats.

It is worthwhile to review these trends because of changes that may take place during the year ahead. We expect moderate improvement in the general economy and an increase in real disposable income of about 2.5 percent. Interest rates will probably decrease, and energy costs may go up at a rate less than general inflation. These two developments should increase the share of meals eaten away from home and particularly help

beef demand. The worst problems with consumer demand for beef may be past, so that improvement should take place during the year ahead. There is no indication that consumer preference for beef has changed.

Cattle numbers stabilized during 1979 and turned up sharply during 1980. The July 1, 1981, inventory indicates a slowing of the rate of increase in cattle numbers. The total number of cattle was 125.0 million, up moderately from 123.2 million the year before. At 40.2 million, the number of beef cows was up only 1 million compared to an increase of 2.3 million from July 1, 1979, to July 1, 1980. Those numbers suggest that the buildup in cattle numbers that started in 1980 will be short-lived.

During the first half of 1980, the price of feeder cattle averaged about 10 percent less than the year before even though the price of fed cattle was essentially unchanged. The change in the relationship between feeder cattle and fed cattle prices was the result of increased costs of cattle feeding (feed and interest) and changing price expectations about fed cattle prices. Continued disappointment with cattle prices and cattle feeding losses caused feeders to be conservative at the expense of cow calf operators.

Projections for 1981 (shown in the accompanying table) are based on slaughter during the first six months, the July 1 cattle inventory, and July 1 cattle on feed report. These figures project to a cattle inventory on January 1, 1982, of 116.3 million. The 1.3 million increase over 1980 includes 1.0 million cows and the carryover from the 1981 calf crop, which is slightly larger than the 1980 crop. For cattle inventory to reach the projected level, cattle slaughter must be large during the second half of 1981.

Projections for 1982 are based on an increase in cow numbers of 1 million head. The beef production shown for 1982 is based on the buildup in cattle inventory, continued low levels of veal calf slaughter, and some reduction in average slaughter weights. High feed costs, high interest rates, and less bullish price expectations may reduce slaughter weights and beef production.

Demand for beef should improve in 1982. As noted above, consumer demand for meat, beef in particular, should improve if the economy stabilizes and improves moderately. We are tentatively projecting an increase of 5 percent in broiler and turkey production and a cut of 7 percent in pork production in 1982. If those projections and our beef production projection are accurate, total meat supplies will drop 1.3 percent from 1981. Total meat supplies in 1981 are about 1.8 percent above 1980.

Assuming that there is a small increase in beef supplies, less pressure from pork and poultry, moderately increasing real disposable income and stronger consumer demand, and a seven percent inflation rate, we expect an average price for choice steers of about \$75 in 1982. That is the same price we forecast one year ago. The forecast is an increase in real terms of 10 percent from the depressed price of 1981. As usual, we expect a wide range from high to low.

Cattle Industry Data

Year	Million head			Beef prod'n, mil. lb.	Omaha Choice steers, price/cwt.	
	On farms Jan. 1	Calf crop	Cattle slaughter		1972 \$	Current \$
1967	108.8	43.8	34.3	20.0	32.03	25.31
1968	109.4	44.3	35.4	20.7	32.50	26.83
1969	110.0	45.2	35.6	21.0	34.23	29.68
1970	112.4	45.9	35.4	21.5	32.11	29.34
1971	114.6	46.7	35.9	21.7	33.89	32.54
1972	117.9	47.7	36.1	22.2	35.76	35.76
1973	121.5	49.2	34.0	21.1	42.11	44.60
1974	127.8	50.9	37.3	22.8	36.47	41.85
1975	132.0	50.2	41.5	23.7	35.31	43.80
1976	128.0	47.4	43.2	25.7	29.23	39.11
1977	122.8	46.1	42.4	25.0	28.70	40.39
1978	116.3	43.8	40.0	24.0	34.42	52.33
1979	110.9	42.8	34.0	21.3	44.59	67.67
1980	111.2	45.4	34.1	21.5	37.76	66.96
1981	115.0	45.6	36.3	22.9	33.25	64.00
1982	116.3	45.5	36.4	22.8		